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ABSTRACT

School finance is once again a hot topic across the country. Despite the current turmoil in education finance, reform remains a priority at both the state and federal levels. This report examines the school finance issue and proposes that education funding be tied more closely to systemic reform initiatives. It next describes past trends in school finance and current challenges to traditional education funding sources. Policy implications of these changes are presented, followed by a discussion of possible components of a finance system based on systemic reform. It is recommended that a system of school finance based on systemic reform include the following: a school-based finance structure; a school-controlled budget; school authority over personnel; a school-based information system; investment in knowledge-development activities; a redesigned system for rewarding and compensating teachers; choice; deregulation; and school-finance equity. Lists of Consortium for Policy Research in Education (CPRE) books, research reports, and policy and finance briefs are included. (LMI)

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Including School Finance in Systemic Reform Strategies: A Commentary

by Allan Odden

School finance is once again a hot topic across the country. Slow economic growth has caused the public perception of declining school funding, while some charge that education outcomes do not justify the money that *is* being spent. States across the nation are dealing with a brewing tax revolt. And court cases challenging school funding are multiplying rapidly.

In spite of the current turmoil in education finance, reform remains a priority at both the state and federal levels. The ambitious education goals agreed upon by former president Bush and the nation's governors are being supported by President Clinton. These goals are the foundation for the administration's Goals 2000 program—a program that embraces the concept of "systemic reform." Also, at least 45 states have developed or proposed policies based on the systemic reform approach.

This issue of *CPRE Finance Briefs* takes a look at the school finance issue and proposes that education funding be tied more closely to systemic reform initiatives. It next describes past trends in school finance and current challenges to traditional education funding sources. Policy implications of these changes are presented, followed by a discussion of possible components of a finance system based on systemic reform. The brief draws on a published article[1] as well as continuing CPRE Finance Center research on school-based management.

Past Trends in Education Funding

A look at school finance for the future requires knowing the facts about education funding of the past. The fact is that education funding—nationally and in most states—has been rising quite consistently since World War II. Table 1 shows inflation adjusted dollars per pupil in 1960, 1970, 1980 and 1990. Each decade, funding rose in substantial terms: 69 percent in the 1960s, 22 percent during the 1970s and 48 percent in the 1980s. Part, but not all, of the funding increase was for new services for increasing numbers of poor, handicapped and other special needs students. Even in the tax limitation and supposedly lower government spending era of the 1980s, real dollars per pupil for the schools rose by 48 percent.

[1]Odden A. Forthcoming. "Decentralization Management and School Finance." *Theory into Practice.*

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This pattern of increase, which equals about 2.2 percent a year over this 30-year time period, has generally been maintained during the beginning of the 1990s. Despite the sluggishness of the current economy, the figures in Table 2 show that per pupil education spending on a national basis has exceeded inflation each year in the 1990s so far, although not by much. According to a recent U. S. Department of Education report, public elementary and secondary education spending will hit $295 billion in 1993-94, a 47 percent increase over the previous 10 years—after adjusting for inflation. Real per pupil expenditures for current operating purposes are estimated to be $5747 in 1993-94. While school funding varies dramatically by state and district—with not all states and districts experiencing funding increases—the overall numbers nevertheless tell a national story of school financing that is quite contrary to public perception.

These patterns of systematic increases in education funding need to be recognized and better understood by the nation's political and education leadership as new education program and finance policy is forged during the remainder of this decade.

While the overall picture is one of rising resources, funding is scarce in some states and many urban school districts. California is a good example. That state struggled to maintain an even level of nominal dollars per pupil over the past three years and level per pupil funding is an optimistic scenario for the next 2-3 years as well. Thus, inflation will erode California's educational resources. Since California's school population is very diverse and the state spends considerably below the national average, school finance in that state does not follow the more generous national trends.

Many big city districts also face severe fiscal constraints. But, while nearly all urban districts have high concentrations of low-income, language-minority and handicapped students that require substantial extra educational resources, many urban districts spend substantially above state average spending levels. In other words, although nearly all big city districts struggle to maintain adequate school funding, not all are extremely poor or on the low end of the expenditure spectrum.

Finally, because of the inequities caused by use of local property taxes as a major source of school revenues, nearly all states have a combination of property-poor and low-spending districts geographically close to property-rich and high-spending districts, a systemic inequity that has long plagued the fairness of the American education system.

Nevertheless, as the nation's education and political leaders face up to the rising challenges of the education system, the overall reality is that, historically, the country has always been willing to increase the dollars for its schools.

Challenges to School Funding Sources

Only time will tell whether the 1990s will be as fiscally generous to the schools as previous decades. The federal government predicts that education funding will rise by another 43 percent between 1993 and 2003—after adjusting for inflation, largely based on historical patterns of

Table 1: Education Funding Per Pupil, 1960 to 1990 (1990 dollars)

	1960	1970	Change, 1960-1970	1980	Change, 1970-1980	1990	Change, 1980-1990
Real Dollars Per Pupil	$1621	$2743	69%	$3345	22%	$4960	48%

Source: National Center for Education, *Digest of Educational Statistics, 1993.*

Table 2: Education Expenditures Per Pupil in the 1990s (1992-93 dollars)

	1989-90	1990-91	1991-92	1992-93	1993-94	Change, '89-90–'93-94
Real Expenditures Per Pupil	$5570	$5582	$5645, est.	$5721. est.	$5747, proj.	3.2%

Source: National Center for Education Statistics.

growth and traditional assumptions about the course of the economy. But there are some indications that this might be an overly rosy prediction.

First, one source of increased revenues in the 1970s and 1980s—the state—may not be able to increase school funding during the 1990s. Indeed, the shift of funding from local to state sources seems to have stabilized in the late 1980s with states providing about 50 percent of revenues, locals about 44 percent and the federal government about 6 percent. Actually, the state share dropped a couple of points during the past few years while the local share rose. Today, moreover, state tax increases are generally earmarked not for schools but for closing state budget gaps, building prisons and funding Medicaid.

Recently, Colorado and Oklahoma joined the growing list of states that limit state expenditures. These proposals are likely to lead to a reduction in state spending, which also usually produces fewer school revenues. The more these types of state and local measures are approved, the more tenuous becomes the ability of states to hike education revenues.

Second, the federal government is a potential but unlikely source of new education revenues; it already spends much more than it collects and any significant new spending likely will occur in health rather than in education.

Third, there is a brewing revolt against rising local taxes. Nationally, local taxes have been the fastest rising revenue source in the country since 1985, outpacing both state and federal taxes. Local taxes include not only increasing property taxes, but also many new local sales and income taxes approved over the past decade. As a result, local taxes in the aggregate have been rising at rates above both inflation and personal income.

Most of the rise in local taxes has been pumped into schools. In the 1980s, many states, particularly southern states, saw the property tax as an untapped revenue source, and increased property tax rates as a major component of their education reforms.

One clear indication of current dissatisfaction with the local taxes is the 1993 law enacted by the Michigan legislature which eliminated the local property tax as school revenue. That action cut about $6.3 billion from Michigan's total $10 billion public school budget. In March 1994, Michigan voters approved Proposal A, which replaced most lost revenues by an increase in the state sales tax from 4 to 6 percent and by an increase in the tax on cigarettes from 25 to 75 cents per pack.

In Wisconsin, legislators have enacted a law that cuts property tax funding for schools by one-third and charges a panel with developing a way to replace the lost revenues. In a somewhat less drastic initiative three years ago, Oregon taxpayers enacted a substantial reduction in property taxes that was to be phased-in over five years; the lost property taxes were to be covered by new state revenues. This is the third year of the phase-down, but neither the legislature nor the people have approved a sales tax to cover the lost revenue; as a result total education revenues are down.

Further, California's Proposition 13 continues to gut education revenues in the Golden state. But California voters continue to turn down initiatives that would modify Proposition 13 and make

it easier to raise more local property taxes.

Minnesota, Nebraska, New Hampshire, Pennsylvania, and South Carolina are also exploring reforms to eliminate local property taxes as a school revenue source.

These events suggest that the country may be experiencing a round of property tax relief and reform like that of the early 1970s. However, the degree of fiscal freedom today for reducing property taxes is less than in the 1970s. In 1973, many states received their first federal revenue sharing dollars, and thus had a "free" revenue source they could use to cut local taxes. Other states enacted new sales and income taxes, or raised their historically low rates for those taxes, and had new money to reduce local property taxes. Unfortunately these revenue options are not generally available today.

States such as Oregon, which lacks a sales tax, and Texas, which does not have an income tax, could enact such a new tax. But today the proceeds might be used more to reduce the tax burden on the other two taxes, particularly the property tax, than to increase funding for any function, such as education. This happened recently in Connecticut when it finally enacted an income tax.

These dilemmas could portend a "flattening" of the public sector, or at least a lower increase than has been experienced during the past. The result would be much slower growth—and potentially even decline—in school revenues.

Only time will tell whether such a scenario becomes reality. But what can be predicted with some certainty is slower growth in education revenues caused by the overall sluggishness of the national and most state economies, together with stiffened resistance to raising tax rates and increasing property tax burdens. Until economic growth picks up, tax revenues flowing into government coffers—including those of school districts—could be in very limited supply.

Push for Growth in Education Productivity

Despite the less than optimistic prediction for future school revenues, the education system is under intense pressure to hike the achievement of all students dramatically. Not only might pressures to reduce and reform the property tax need to be accommodated within a smaller purse, but also schools might still need to improve student achievement a great deal within this limited purse.

The national education goals call for high proficiency in thinking and problem solving in core content areas for *all* students, a level attained by only a small percentage of students today.

According to the NAEP (National Assessment of Educational Progress) Fall 1993 results, less than 10 percent of students were achieving just "acceptable" levels of math and reading let alone high levels. Indeed, even before the recent demands for substantially higher student achievement, the realization that funding has been consistently rising while achievement has remained flat led some to suggest that education had a significant productivity problem. The productivity problem must be faced, because more than increased money is needed if student achievement is to rise.

Thus, the future challenge for education will be to link improvements in school finance to local tax reform and, simultaneously, to produce high levels of achievement for all students, with school budgets that grow more slowly or even decline in some states over the rest of the 1990s.

Pressure From the Courts

Legal pressures reinforce this call for improved school quality. School finance litigation and court decisions that overturn state school finance structures are creating intense pressure both to improve education quality and reform unfair school finance structures. Today, there are school finance cases being developed, in trial or recently decided, in over 25 states in the country. The level and scope of school finance litigation is at an all time high.

State supreme courts in Kentucky, Massachusetts, Montana, New Hampshire, New Jersey, Tennessee and Texas have ruled state school finance systems unconstitutional already in the 1990s. In September 1993, the New Jersey court overturned the expensive New Jersey school finance reform enacted in 1991, writing that more money was needed by the low-spending districts. Lower courts in Alabama, Minnesota, Missouri, and Rhode Island have found systems unconstitutional (although the Minnesota Supreme Court recently overturned the lower court's ruling).

All the court decisions require states to reduce, if not eliminate, fiscal disparities caused by unequal distribution of the local property tax. No state has addressed this objective in the past without pumping a significant level of new state dollars into the education funding system. With caps being placed on state revenues and citizens resisting state tax increases, traditional school finance reform could be much more complicated in the 1990s.

But the court decisions today seem to be even more aggressive than in the past about reducing expenditure per pupil differences and requiring large hikes in the

expenditure levels of many if not most districts. The recent decision in Alabama found the entire state system inadequate and mandated a higher level of funding for all districts, a level that would enable each district to meet the state's education requirements. Legislative response will be very difficult without a new and large pot of money.

In New Jersey, the original and the recent supreme court decision in the *Abbott v. Burke* case required the state to bring the expenditure per pupil of the 28 "special needs" districts, which enroll 25 percent of the state's students, up to the same level as those of the most affluent and highest spending districts in the state. Meeting the court requirement would add significantly to the cost of school funding. The 1993 court ruling, which undergirds this original court requirement, comes after a three-year struggle in New Jersey around raising state taxes to meet the court stipulation. How New Jersey will resolve these dilemmas is unknown.

Finally, nearly all recent court decisions contain language about the evolving high-skill needs of the modern economy and the need for the education system to produce students with a much higher level of cognitive capabilities. While no decision has explicitly required a minimum student achievement level for compliance with the court mandate, the trend certainly is toward that end. The response to the Kentucky decision, which overturned the entire education system—curriculum, governance and finance—stipulated high student achievement standards as the primary goal of both program and finance reforms. The case in Alabama required similarly high outcomes as did the recent Massachusetts case.

In short, despite the potential scarcity of education revenues, courts are maintaining pressure to eliminate the fiscal disparities that have plagued state school finance systems, and appear to be moving toward requiring minimum proficiency levels on thinking and problem solving tasks for *all* students.

Implications for Policymakers

Political and education leaders who want to be ahead of, rather than goaded, by complicated court rulings might take these trends seriously and begin restructuring their finance systems in ways that link more clearly the school finance structure to student achievement results. Indeed, given the flat and inadequate level of student achievement, there are pressures from several sources to make improved student learning the main goal of all education policymaking. Aligning the school finance structure with a set of policy initiatives designed to improve student learning is an important piece of a fast-growing education reform movement—systemic education reform.

Key Components of Systemic Reform

Nationally and in many states, systemic reform is now identified as a potentially powerful way to produce higher levels of student achievement. Briefly, systemic reform includes the following key components:

• *ambitious student outcomes*
The underlying concept is that *all* students should be able to perform at high levels on thinking and problem-solving skills. The system shifts from a focus on inputs to a focus on results.

• *a series of coherent policies at all government levels supporting student outcome goals*
The policies should include: (a) high quality curriculum standards such as those developed by the National Council of Teachers of Mathematics, coupled with new and revised instructional materials; (b) new forms of performance assessment, strongly linked to the curriculum standards, that indicate what students know as well as what they can do; and (c) substantially expanded professional staff development along with dramatically revised pre-service teacher training

• *restructured management and governance, including site-based implementation*
Critical aspects of implementation should devolve to the organizational unit that actually delivers educational services—schools. Key service providers—teachers—should participate in devising the program strategies to be implemented.

The most effective strategy to improve performance—in both the private and public sectors—has been to set clear performance targets at the top of the system, flatten the organizational structure, move decision-making down to work teams actually providing the service, and hold them accountable for results (Barzelay 1992; Galbraith et al. 1993; Lawler 1992). Indeed, high involvement/decentralized management is *the* rapidly rising organizational

strategy used in the non-school, public and private sectors of our economy to enhance organizational effectiveness and productivity. Furthermore, especially important given the uncertainty of future education resources, high involvement, decentralized management has been used successfully to improve performance in circumstances when funding is increasing as well as when it is not.

This decentralization strategy works best for organizations whose work is complex, is best done in teams, and exists in a rapidly changing environment (technically and otherwise). These traits characterize education. Teaching is an intellectually complex task, is best accomplished when it is done collegially, faces uncertainty in its day-to-day tasks, and exists in a rapidly changing demographic and policy environment (Mohrman et al. 1992). Thus including school-based management as an organizational component of systemic reform is supported by analogies from other sectors.

High involvement management works only when information, knowledge, power over the budget, authority over personnel, and rewards are decentralized to the unit of service provision. Thus developing a sound educational finance system linked to a systemic reform appears to entail the following:

- a focus on the school as the key organizational unit
- devolution of power over the budget to schools
- decentralization of the personnel function to sites
- development of a comprehensive school-level information system
- investment of dollars in capacity development
- redesign of teacher compensation

School Finance and Systemic Reform

In the following sections we describe what a system of school finance based on systemic reform might look like. At this point, these designs have no direct empirical support, but they draw both from studies of effective management in the private sector and tentative findings about factors necessary for effective school-based management (Mohrman 1993; CPRE 1993a; Mohrman and Wohlstetter forthcoming; Wohlstetter et al. forthcoming; Odden and Odden 1994).

School-Based Finance Structure

One new direction might be to target education policy, including finance policy, more directly on *schools*—rather than *districts*. States now give money to districts but not schools. A school focus not only fits with school-site implementation, but also public school choice, charter schools, the Clinton administration's America 2000 program and several other school-based policy initiatives.

School-Controlled Budget

The second aspect of a new school finance structure would be to move power to the school by devolving budget authority. A large portion of dollars would be budgeted in a lump sum to schools. The more radical approach would be for states, or perhaps districts, to fund schools directly. A less dramatic approach would be for states to follow the lead of the United Kingdom and by law require that 85-90 percent of all dollars—both general and categorical—now allocated to districts be sent to schools in a lump sum. While the district could retain some functions and budgetary power—in transportation, capital facilities, for example—schools would need to control at least the instructional budget, which comprises about 60 percent of most school budgets.

In school-based allocation schemes, three major components of funding might be considered. To start, each school could receive an equal base level of dollars per pupil. The preferred approach would be for the state to determine the base spending level. If a state adopted the new legal remedy for school finance inequities proposed by CPRE researcher Bill Clune (CPRE 1992), it would set a high base per pupil funding for all schools in the state.

This high level could be overreaching as a target for all schools. A somewhat less ambitious target would be the state's previous average expenditure or the 50th percentile, a level that probably would allow schools in non-metropolitan districts to provide a high quality education program. However if this lower base level were selected, a second tier equalized plan should also be added for schools that want or need to spend above that level, either because they face higher prices, have greater student need, or have a higher taste for education. Such a tier could be linked either to the property tax or to the state's income tax. The idea would be to allow any school or district wanting to spend above the common base to do so, and through a power equalization

program to make the additional spending approximately the same for equal extra tax efforts. The state could "cap" this extra expenditure at some level, perhaps 50 percent above the base.

Second, some schools have poor children who need additional services in order to learn the core curriculum. Thus, the base allotment should be augmented by a substantial amount for every poor child. The dollar amount for this add-on should be sufficient for the school to raise the achievement of low-income children to acceptable levels of proficiency on thinking and problem-solving tasks. One program that has produced impressive results in student learning is the Success for All Program created by Robert Slavin at Johns Hopkins University. The cost of that program is close to $2000 per poor child. Thus an add-on for low income children could run an extra $2000 per child (Clune 1993).

Third, it is well documented that the purchasing power of the educational dollar varies across districts and labor market regions. Equal funding per pupil discriminates against urban districts, where prices are higher, and advantages non-metropolitan districts, where prices are lower. Thus, states should modify all dollar allocations by some regional price index that adjusts for the varying purchasing power of the educational dollar. While the technical methods for creating these adjustments are relatively straight forward, the politics of getting them enacted into formulas admittedly are difficult.

This finance structure would produce fiscal equity across not only school districts in a state but also across schools. It would also include finance as part of an overall systemic strategy to help schools produce high levels of student learning, not as part of a fiscal equity agenda.

School authority over personnel

The ability to recruit, select, develop, socialize and deploy personnel resources is also important to decentralized, high-involvement management. Individuals need to fit into each work group on both a technical expertise and social norm level. Sites, thus, would need to power to select both the mix of personnel at the school and the specific individuals for each job position.

School-Based Information System

The data implication of school-based financing and decentralized management is a school-based fiscal accounting structure that would provide sites with detailed information on revenues, budgets and expenditures by object, function and program. At a minimum, this would technically mean moving current education fiscal accounting information systems from the district to the school level. It also would require information on student performance, periodically over the course of the year; feedback from parents and the community on school satisfaction; benchmark information with schools in similar communities; and up-to-date information on the socio-demographics of the school context. For the most effective implementation, it would entail developing an on-line, personal computer-based, interactive system that would provide each school with accurate, up-to-date fiscal information, as well as all of the other data on teachers, students and the community.

Investment in Knowledge Development Activities

Effective decentralized management requires development of a new and wide range of knowledge and expertise for faculty in a school. This requires substantial investments in professional development and training. Training would need to focus on the knowledge and skills needed to teach the new thinking-oriented curriculum, and on the expertise needed to engage in school-based fiscal decision-making and budgeting. While lump-sum budgeting could allow school faculty to allocate new funds for professional development, that state also could set-aside two to four percent of the total school revenue for continuing professional development. This year, Minnesota and Missouri targeted two percent of their foundation formula for ongoing training.

Use of this money would need to switch from one-shot workshops, which typifies too much of education staff development, to

more intensive training emphases. Sending teams of teachers to intensive summer institutes, developing a trainer of trainer structure, and supporting teacher involvement in professional networks are new types of strategies that may have better success in developing new and complex teacher expertise that is used successfully in the classroom (CPRE 1993b).

Redesigned Teacher Reward and Compensation System

This dimension of new school finance would include changes in the reward or compensation structure for teachers. It would entail changing the base of teacher compensation from the indirect measures of education and experience currently used. One possibility would be to base compensation on direct measures of individual knowledge and skills, i.e., what teachers know and can do.

Such a structure also could include a salary increase for certification from the National Board for Professional Teaching Standards. In addition, a revised compensation system could include group-based school faculty performance awards, including bonuses for meeting improvement targets and cost-reduction gain sharing-programs (Lawler 1990). The latter components would require a separate budget.

I have co-authored several papers that outline in much more detail how such a new compensation structure could be designed, what the skill block components could include, and how to transition from the current to such a proposed system (Mohrman et al. 1993; Odden and Conley 1992).

Choice

School choice must also be addressed. The type of decentralization described above provides choice to educational professionals in how to accomplish education achievement targets. Different schools likely would take on different characteristics—some math and science oriented, some more humanities oriented, some using standard curriculum frameworks, others taking a more thematic approach, etc.

Some of these strategies might not be good for some children or liked by some parents. As a result, it would be inappropriate to require everyone to attend his or her neighborhood school. Thus choice of school, *at least within the public sector*, might be a component of a new design. Put differently, public school choice within and across districts is a side effect of dramatic school-based management and decision-making. Further, charter schools, which are growing in popularity, can provide perhaps even more choice. In short, a wide range of choice options should accompany the above approach to school finance and education policy reform.

In Minnesota, a set of comprehensive public school choice programs, including charter schools, has not only empowered parents but also has induced schools to pay closer attention to their parent and children customers. Schools now assess what they offer in terms of what parents want, and, in the main, parents want a quality curriculum program and high standards for student achievement. Further, although pressed for resources, schools responding to these new pressures are rethinking how they use current revenues and devising strategies for reallocating revenues to focus funding on core programs.

Deregulation

Another ingredient of such a new structure would be substantial regulatory relief. It is hard to unleash the creativity of school professionals to redesign educational services to produce higher and more ambitious student learning results, while holding them to all the federal, state, local and union contract rules and regulations that now govern and proscribe their behavior. A serious results-oriented system would de-emphasize regulations and focus accountability on what students actually learned.

School Finance Equity

A school-based finance structure could provide opportunities to expand significantly the level of fiscal equity in state school finance systems as well as the dimensions of resource equity that could be assessed. Financing *schools* could enhance fiscal equalization at both the district and site level. This is important because a just-completed study of California found that although the state had produced fiscal equity across districts, there were wide ranging inequities—fiscal, program, teacher quality and student achievement—at the school level (Hertert 1993).

At the school, moreover, equity concerns could move beyond measures of dollar equality and include the issue of whether all students have the quality of instruction needed to learn more ambitious material. The idea is that if the nation or a state implements new testing for students and uses the results to make important decisions for students—

whether to promote them to the next schooling level, admit into postsecondary education, or hire in the job market—then schools need to provide the curriculum resources to furnish students the "opportunity to learn" at the expected levels.

While defining opportunity to learn is a complex issue—philosophically, technically and statistically—its goal is to define a set of variables strongly linked to student learning, in addition to dollar equality Porter (1993), suggests three key school process variables:

• measures of the "enacted curriculum," i.e., the curriculum actually delivered and covered in the classroom.

• measures of the teaching strategies actually used. The high end of this measure would be strategies that engage students in problem solving and where students construct resolutions to problems and experiments.

• measures of curriculum-imbedded resources, such as computers, access to laboratories, laboratory equipment and manipulative in mathematics classrooms.

A study conducted by Porter and colleagues found it is possible to collect such data through periodic surveys, classroom observations, and a small number of case studies (Porter et al. 1993).

Conclusion

Although school funding has risen every decade during the past 30 years, several factors may be conspiring to limit growth during the 1990s. The sluggish economy is slowing growth in governmental tax revenues. Tax revolts also are brewing at both state and local levels. The Michigan legislature's elimination of the local property

tax as a source of school revenues is one strong example. The result may be smaller increases or even decreases in education revenues. Nevertheless, the education system is under intense pressure from legislatures, the courts, the public and the business community to reform inequitable and unconstitutional school finance systems *and* to improve system outcomes—to graduate students who have mastered a level of cognitive expertise now achieved by only a small portion of today's students.

Normally, such reforms require substantial new money. That money might or might not become available. But reform to accomplish these achievement goals is required anyway.

Systemic reform is an emerging education reform strategy designed to accomplish this objective. Redesigning the school finance system to support systemic reform would align the finance structure to a program strategy that should increase student learning. Such a new education system would include ambitious student achievement outcomes, high-quality curriculum standards, and new performance-based testing systems. A finance structure to match could be school based and give schools power over the budget and hiring personnel; provide heavy investments in continuing training; include a school-based fiscal, achievement and demographic information system available in an on-line, interactive computer system; and restructure teacher compensation to pay teachers individually on the basis of their knowledge and skills, and collectively for what they produce in terms of student achievement.

The school formula structure should include: (1) a high base per pupil amount for each student (and a power-equalized second tier allowing schools to spend above the base if the base is set in the middle range of expenditures); (2) a substantial add-on for each student from a poverty background; and (3) a price adjustment for each dollar figure that would compensate for the varying purchasing power of the educational dollar. The system also would need a wide range of public school choice and substantial regulatory relief.

Such a new structure would formally connect the finance system to a program system designed to enhance student learning, could produce fiscal equity at both the district and school levels, and also could improve the productivity of the education system.

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